

## Message Text

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ACTION EA-10

INFO OCT-01 EUR-12 ISO-00 IO-10 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00

XMB-02 ABF-01 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 PA-01 PRS-01 USIA-06 /099 W

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R 310920Z MAR 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9035

INFO AMEMBASSY BONN

AMEMBASSY BERN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: RECENT CHANGES IN JAPAN'S FOREX CONTROLS

SUMMARY: RESPONDING TO STRENGTHENED BALANCE OF PAYMENTS AND FOREX RATE SITUATION IN RECENT WEEKS, GOJ HAS INSTITUTED A NUMBER OF CHANGES IN FOREIGN EXCHANGE CONTROLS DESIGNED TO LESSEN CERTAIN INFLOWS OF FOREIGN FUNDS AND PERMIT CERTAIN OUTFLOWS. THE CHANGES INCLUDE RESTRICTIONS ON PRIVATE AND PUBLIC BOND ISSUES AND REDUCTIONS IN AMOUNT OF IMPACT LOANS TO BE PERMITTED IN APRIL-JUNE QUATER. ALTHOUGH CERTAIN TAXES ON INTEREST PAYMENTS TO ENCOURAGE CAPITAL INFLOWS ARE BEING ELIMINATED, THAT DECISION WAS MADE SOME MONTHS AGO WHEN B/P PROSPECTS WERE GLOOMIER. END SUMMARY.

1. RESPONDING TO FEB B/P STATISTICS (TOKYO 4002) WHICH  
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SHOW A LONG-TERM CAPITAL SURPLUS OF \$242 MIL, MOF HAS BEGUN

ADJUSTING A NUMBER OF ITS REGULATIONS AFFECTING FOREIGN CAPITAL MOVEMENTS. GOJ HAD PROJECTED BASIC BALANCE DEFICITS OF \$5.5 BIL FOR JFY 1974 AND \$3.9 BIL FOR JFY 1975. IN VIEW OF RECENT SIZEABLE CAPITAL INFLOW, BASIC BALANCE DEFICIT LIKELY TO BE SIGNIFCANTLY SMALLER THAN THESE ESTIMATES. (LATEST DATA SHOW DEFICIT FOR FIRST 11 MONTHS OF JFY 74 IS \$4.63 BIL.) WHILE TRADE PERFORMANCE HAS BEEN BETTER THAN EXPECTED, OVER THREE-QUARTERS OF THE OVER-ESTIMATION OF THE JFY 1974 BASIC BALANCE DEFICIT IS DUE TO SERIOUS OVERESTIMATION OF THE DEFICIT ON LONG-TERM CAPITAL. RECENT MOVES MAY BE DESIGNED TO KEEP BASIC BALANCE NEARER FORECAST AND/OR COUNTER RECENT TENDENCY FOR YEN TO APPRECIATE VIS-A-VIS DOLLAR. MOVES HAVE INCLUDED CHANGES IN REGULATIONS AFFECTING BOTH SHORT-TERM AND LONG-TERM CAPITAL MOVEMENTS.

2. JAPANESE BANK LENDING ABROAD:

MOF RECENTLY RAISED BY \$100 MIL THE CEILING ON SHORT-TERM NON-TRADE RELATED LOANS TO FOREIGNERS BY JAPANESE BANKS. MOF HAD BANNED NEW LOANS AFTER JUNE 1974 IN RESPONSE TO THE FAILURE OF THE HERSTATT BANK AND UNSETTLED CONDIONS IN EURO-DOLLAR MARKET. DESPITE RECENT PRESS REPORTS THAH THE CEILING WILL BE RAISED AGAIN IN COMING MONTHS, MOF SOURCE SAID NO DECISION HAS BEEN MADE OR IS UNDER CONSIDERATION REGARDING ANY CHANGES BEYOND THE LATEST INCREASE.

3. PRIVATE BOND PLACEMENTS ABROAD: MOF OFFICIAL CONFIRMED TO ASST FINATT THAT NUMBER OF PRIVATE BOND PLACEMENTS TO BE APPROVED DURING APRIL-JUNE QUARTER WILL BE SOMEWHAT LESS THAN THE NUMBER APPROVED IN JAN-MARCH. OFFICIAL EXPRESSED VIEW THAT FINANCIAL CONDITIONS IN JAPAN AND ABROAD ARE TENDING TO REDUCE NUMBER OF PRIVATE PLACE-MENTS ANYWAY AND THAT PLANNED RESTRICTIONS WILL MERELY ENCOURAGE THIS TREND. ASKED ABOUT REPORT THAT PRIVATE PLACEMENTS ABROAD WILL BE RESTRICTED TO ARAB COUNTRIES AND SWITZERLAND, OFFICIAL SAID NO FIRM RULE EXISTS BUT LEFT IMPRESSION REPORT WAS ESSENTIALLY CORRECT.

4. PUBLIC BOND OFFERINGS ABROAD: ALTHOUGH MOF DID NOT LIMITED OFFICIAL USE

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PROVIDE FIRM FIGURE FOR APRIL-JUNE PUBLIC OFFERINGS IN EUROPE BY JAPANESE FIRMS, OFFICIAL DOES EXPECT NUMBER OF OFFERINGS TO BE LESS THAN THE 12 ISSUES PLACED IN JAN-MARCH. THREE FACTORS WERE CITED AS TENDING TO OFFSET MORE ATTRACTIVE INTEREST RATE CURRENTLY AVAILABLE IN EUROPE: (1) UNCERTAINTY IN TOKYO FOREX MARKET; (2) PROSPECT OF EASIER CREDIT IN JAPAN AFTER APRIL; (3) JAPANESE QTE OVERPRESENCE UNQTE IN EUROPEAN MARKETS. CONCERNING LAST POINT OFFICIAL CONFIRMED

TO ASST FINATT THAT ONLY FIRST RANK JAPANESE FIRMS MAY NOW  
ISSUE BONDS ABROAD AND THAT APPLICATIONS BY THESE FIRMS TO  
ISSUE FOREIGN BONDS WILL RECEIVE CAUTIOUS REVIEW BY MOF.  
ON THE OTHER HAND SALES OF OUTSTANDING JAPANESE BONDS  
ABROAD WILL BE ENCOURAGED BY SECTION OF NEW GOJ TAX BILL  
WHICH PROVIDES BROADER APPLICATION OF THE EXEMPTION FROM  
WITHHOLDING TAX ON BOND INTEREST PAID TO FOREIGNERS  
(SEE TOKYO A-134, PAGES 6 AND 11).

5. IMPACT LOANS FROM ABROAD; MOF REPORTS THAT APRIL-  
JUNE CEILING FOR IMPACT LOANS WILL BE SET AT \$120 MIL,  
A 20 PERCENT CUT FROM ORIGINALLY AUTHORIZED FIGURE FOR  
FIRST QUARTER. AT PRESENT THE ONLY INDUSTRY EXCLUDED  
FROM THE IMPACT LOAN ARRANGEMENT IS REAL ESTATE. FURTHER  
DESCRIPTION OF CONTROLS OVER IMPACT LOANS CONTAINED IN  
PARA 4(C) OF TOKYO 2642 (NOTAL).

6. FOREIGN BOND ISSUES IN JAPAN: MOF GIVES NO RPT NO  
SIGN THAT YEN DENOMINATED FOREIGN BOND ISSUES WILL BE  
PERMITTED ON TOKYO MARKET. HOWEVER NEW ZEALAND EMBOFF  
TOLD FINATT THAT GNZ CONTINUES TO PRESS FOR PERMISSION  
TO OFFER YEN BONDS HERE AND HOPES MOF WILL ULTIMATELY GIVE  
APPROVAL. ALTHOUGH INTEREST RATE IS NOW RELATIVELY HIGH,  
OPPORTUNITY TO DIVERSIFY BORROWING STRUCTURE AND IMPROVE  
INTERNATIONAL CREDIT STANDING COULD ATTRACT A NUMBER OF  
FOREIGN GOVTS AND INTEROUTCONAL AGENCIES TO TOKYO MARKET  
IF MOF ALTERS PRESENT POLICY.

7. COMMENTS: EMBASSY VIEW IS THAT CUMULATIVE EFFECT OF  
RECENT CHANGES IN FOREX CONTROLS WILL HAVE MODERATELY  
RESTRICTIVE IMPACT UPON CAPITAL INFLOW. STRONG SHIFT IN  
LONG-TERM CAPITAL ACCOUNT FROM \$198 MIL DEFICIT IN JAN TO \$242  
MIL SURPLUS IN FEB HAS ADDED TO FOREIGN EXCHANGE INFLOW  
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COMING FROM STRONG TRADE POSITION OF PAST SEVERAL MONTHS.  
(JAN AND FEB SEASONALLY ADJUSTED TRADE SURPLUSES  
TOTAL NEARLY \$1.5 BIL.) IN FEB OFFICIAL RESERVES INCREASED BY  
\$459 MIL. EMBASSY INTERPRETS THE RECENT MOVES (INITIATED WHEN  
EXCHANGE RATE NEAR 285 YEN/DOLLAR LEVEL) AS INDICATION  
THAT MOF IS RELUCTANT TO SEE MUCH STRONGER YEN NOW THAT  
GOJ APPEARS LESS WILLING TO INTERVENE IN FOREX MARKET TO  
SUPPORT DOLLAR. THEREFORE FOREX CONTROLS ARE USED AS  
ALTERNATIVE INSTRUMENT FOR MANAGING FOREX FLOWS AND RATE  
PRESSURES.  
SHOESMITH

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## Message Attributes

**Automatic Decaptioning:** X  
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**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN EXCHANGE CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 31 MAR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MorefiRH  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
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